

Empirical Study of Recovery Rates of the Loans for Small Company *

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Abstract

We study recovery rates for the guarantee loans of Credit Guarantee Corporations. Because of enforcement of the Basel II, it is urgent to establish methods to measure recovery rates for the company loans. However, outcomes of analyses on recovery rates are rarely publicly available mainly because recovery data is confidential.

We investigate factors that determine recovery rates of the bank loans which are not traded in the capital market. We study how factors, such as contracts with the loans as collateral, financial statement data, and type of business, affects recovery rates. Also we use financial statement data both just prior to the default and 1 period prior to the default. We analyze the relationship between the change of financial statement data prior to the default and recovery rates. We attempt to estimate empirically the determinants of recovery rates by the binary logit model and the ordered logit model. We also analyze the relationship between recovery rates and passage time from payments under guarantee.

We observe that the distribution of recovery rates in Japan is bimodal as is in the literatures of other countries. In addition, it is shown that recovery rates of the loans made under the special credit guarantee program for financial stability are lower.

Key words : loan recovery rate, credit risk, Credit Guarantee Corporations, bank lending, special credit guarantee program for financial stability.

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